

## FAIR LENDING EXAMINATION TECHNIQUES

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### *Type of Participant Targeted*

The Fair Lending Examination Techniques (FLET) course is designed to equip assistant level examiners with the skills and knowledge to plan and conduct a risk-focused fair lending examination.

This course incorporates the FFIEC fair lending examination procedures. The risk-focused examination approach and the procedures require considerable examiner judgement in the planning stages of an examination. A major focus of this course is to teach these skills. *All assistant examiners involved in the consumer affairs specialty must complete this course before being commissioned.*

### *Prerequisites*

Participants should have:

- Completed the Examiner Orientation Program, Banking and Supervision Elements (BaSE) course, Introduction to Consumer Compliance Examinations (CA I) and Consumer Compliance Examinations II (CA II) courses
- Approximately 18 months of consumer examination experience
- Completed the pre-course computer-based training module, “Fair Lending Examination Techniques” estimated to be three hours in length
- Completed the online “Implicit Association Test” for Race located at: <https://implicit.harvard.edu/implicit/demo/selectatest.jsp>
- Read the loan policy for the case study associated with the school
- Read the Revised FFIEC fair lending examination procedures (CA 04-8)
- Read the alternative fair lending examination procedures (CA 01-4)
- Read the procedures for referrals of suspected instances of discrimination (CA 93-10, CA 95-2)
- Read the Interagency Policy Statement concerning fair lending, dated April 15, 1994 (CA 94-2)
- Read the statistical analysis procedures for fair lending examinations (CA 99-12)

## FAIR LENDING EXAMINATION TECHNIQUES

---

- Read the letter addressing issues concerning the ECOA/FHA Enforcement Policy Guide - when to require action under the Policy Guide and how the specific corrective actions in the Policy Guide are to be applied in cases where there is little or no written documentation (CA 82-5).
- Read the ECOA/FHA Enforcement Policy Guide, focusing on: retroactive correction periods, agency discretion, distribution, and effective date (CA 81-9)
- Read the Interagency Guidance on subprime lending (SR 99-6)

### *Course Overview*

This course incorporates the FFIEC fair lending examination procedures. The risk-focused examination approach and the procedures require considerable examiner judgment in the planning stages of an examination. A major focus of this course is to teach these skills.

Participants must be familiar with the examination procedures, as well as Regulation B and the Fair Housing Act. Participants will apply this knowledge and understanding to solve problems and assess bank performance. Major course topics include the pre-examination process, on-site examination process, and concluding the examination.

This course will build upon fair lending material introduced in the Examiner Orientation Program, BaSE, CA I, and CA II schools.

### *Course Objective*

After completing this **9 day** course, the participant, at a minimum, will be able to complete the following objective:

*Upon completion of this course, the participant should be able to effectively conduct a fair lending examination, including development of the fair lending scope memorandum and fair lending analysis and summary memorandum.*

The focus of the course is listed on page 3.

## FAIR LENDING EXAMINATION TECHNIQUES

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### FOCUS OF COURSE

- Role of risk-based interagency fair lending examination procedures in the consumer compliance examination process.
- Prohibited bases in ECOA/Reg. B/FHA.
- Three forms of lending discrimination (overt, disparate treatment, and disparate impact).
- Adequacy of a bank's fair lending compliance management program.
- Potential discrimination in a bank's underwriting guidelines.
- Potential steering practices.
- Statistical analysis to identify possible fair lending problems.
- Evaluation of credit-scoring models.
- Risk-based selection of products, markets, decision centers and prohibited basis/control groups and the intensity of the examination.
- Potential redlining practices.
- Analysis of an applicant's creditworthiness (DTI ratios and various credit reports).
- Analysis of terms and conditions, including pricing, for evidence of discrimination.
- Analysis of approved and declined applications for evidence of discrimination in consumer, residential, and commercial lending.
- Adequacy of the bank's responses to findings of potential discrimination.
- Determination of when a fair lending issue requires enforcement action.
- Application of the alternative fair lending procedures in lieu of the FFIEC fair lending examination procedures.

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## FAIR LENDING EXAMINATION TECHNIQUES

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### *Post-Course Intervention*

After completing the FLET course, the participant should be given on-the-job assignments that will improve the retention of the knowledge and skills obtained during class. On-the-job assignments include the following examples.

- In preparation for an examination, assist in performing the fair lending risk assessment and setting the scope of the exam.
- Assist in performing the onsite comparative file review and discuss their findings with bank management.
- Receive constructive feedback from the EIC or other supervisor on the adequacy of the participant's documentation gathered to support the examination scope and conclusions.

### *Overview of the FLET Curriculum*

Subject	Approximate Class Hours/Minutes
Introduction/Icebreaker	1 hour 30 minutes
Fair Lending Basics	1 hour 15 minutes
Fair Lending Compliance Management	1 hour 30 minutes
Determining Articulated Lending Standards	2
Steering and Abusive Lending	1
Statistical Analysis in Fair Lending Examinations	2
Credit Scoring	2 hours 45 minutes
Fair Lending Exam Scope & Intensity	6
Redlining Analysis	2
Phantom Bank Case Study – Scope Memo Exercise	4 hours 30 minutes
Analyzing Applications	1 hour 45 minutes
Phantom Bank Case Study – Scope Memo Debriefing	1 hour 30 minutes
Examination Strategies & Fair Lending Sampling Basics	1 hour 15 minutes
Underwriting Analysis	4
Commercial Loans	2
Evaluating the Adequacy of Lender Response	2
Phantom Bank Case Study Activities	4 hours 30 minutes
Phantom Bank Case Study – Debriefing	1
Analysis of Pricing & Other Terms & Conditions	3
Concluding the Exam	2 hours 30 minutes
Phantom Bank Case Study – Summary Memo Exercise	3
Phantom Bank Case Study – Summary Memo Debriefing	1 hour 30 minutes
Alternative Fair Lending Exam Procedures	1 hour 30 minutes
<b>Total</b>	<b>54 hours</b>

## FAIR LENDING EXAMINATION TECHNIQUES

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### *Class Size*

The optimal class size for the FLET course is 20 participants. To provide sufficient variety of interaction among class participants, the minimum class size is 12 participants. Accordingly, to ensure a manageable instructor workload and maintain a reasonable participant-to-instructor ratio, a maximum class size is 20 participants.

### *Instructors*

The FLET course requires one lead instructor and three to four additional instructors with consumer compliance fair lending examination experience. Because FLET incorporates case studies to present some instructional material, a sufficient number of instructors are necessary to assist small groups. Other instructors may include Board staff and other System examiners who have expertise in specific topics.